Saskatchewan
Finance

Annual Report 2003

Public Employees Group Life Insurance Fund

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Saskatchewan
Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

Dear Madam:

Letter of Transmittal

I have the honour to transmit herewith the thirteenth Annual Report of the Public Employees Group Life Insurance Fund for the year ending December 31, 2003.

I have the honour to be, Madam,

Your obedient servant,

Harry Van Mulligen
Minister of Finance

Saskatchewan
Public Employees
Benefits Agency

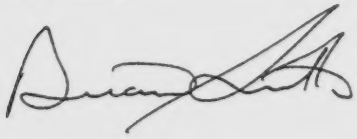
The Honourable Harry Van Mulligen
Minister of Finance
Regina, Saskatchewan

Sir:

Letter of Transmittal

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the thirteenth Annual Report of the Public Employees Group Life Insurance Fund for the year ending December 31, 2003.

Respectfully submitted,



Brian Smith
Executive Director

Public Employees Group Life Insurance Fund

Introduction

The Public Employees Group Life Insurance Plan was established on April 1, 1958.

The Plan provides comprehensive life insurance coverage to employees of Executive Government, several Crown Corporations and various Agencies, Boards and Commissions as approved by the Lieutenant Governor in Council.

Spouses and dependent children are also provided coverage under the Plan.

As at December 31, 2003 there were approximately 28,237 insured employees.

Participating Employers

The following employers participate in The Government of Saskatchewan Group Life Insurance Plan:

Board of Arbitration under *The Surface Rights Acquisition and Compensation Act* (The)
Cafeteria Board of Saskatchewan
Canadian Labour Congress Local 481 (Saskatchewan Government and General Employees Union, Union Office Employees)
Chief Electoral Officer (Office of the)
Children's Advocate (Office of the)
Crown Investments Corporation of Saskatchewan
Cypress Regional Health Authority
Farm Land Security Board
Horned Cattle Fund
Information and Privacy Commissioner (Office of the)
Information Services Corporation of Saskatchewan
Kelsey Trail Regional Health Authority
Leader of the Opposition (Office of the)
Legislative Assembly Office (Employees of the)
Legislative Counsel and Law Clerk (Office of the)
Legislative Library (Employees of the)
Liquor and Gaming Authority
Meewasin Valley Authority
Milk Control Board
National Print-It Centres Ltd.
NDP Caucus Office
Ombudsman (Office of the)
Power Greenhouses Inc.
Prairie Diagnostic Services
Prairie North Regional Health Authority
Provincial Auditor (Office of the)
Regina Qu'Appelle Regional Health Authority
Rentalsman (Office of the)
Sask Pork
Saskatchewan Archives Board
Saskatchewan Arts Board
Saskatchewan Assessment Management Agency
Saskatchewan Centre of the Arts
Saskatchewan Communications Network Corporation
Saskatchewan Crop Insurance Corporation
Saskatchewan Film and Video Development Corporation
Saskatchewan Government Insurance
Saskatchewan Health Information Network
Saskatchewan Human Rights Commission
Saskatchewan Institute of Applied Science and Technology
Saskatchewan Municipal Board
Saskatchewan Party Caucus
Saskatchewan Power Corporation
Saskatchewan Property Management Corporation
Saskatchewan Telecommunications Holding Corporation
SaskEnergy Incorporated
SecurTek Monitoring Solutions Inc.
SGI Canada Insurance Services Limited
South Saskatchewan River Irrigation District No.1
St. Louis Alcoholism Rehabilitation Centre
Sun Country Regional Health Authority
Tourism Authority
TransGas Limited
Wakamow Valley Authority
Wanuskewin Heritage Park Authority
Wascana Centre Authority
Western Development Museums
Workers' Compensation Board (The)

The Board of each of the following respective pension plans, is responsible for the administration, with respect to individuals receiving benefits under each plan:

Anti-Tuberculosis League Employees

Superannuation Plan
Liquor Board Superannuation Plan
Power Corporation Superannuation Plan (The)
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Telecommunications Pension Plan (The)
Workers' Compensation Board Superannuation Plan (The)

The Government of Saskatchewan with respect to the following individuals:

Assistant Chief Electoral Officer
Chief Electoral Officer
Children's Advocate
Conflict of Interest Commissioner
Information and Privacy Commissioner
Judges of the Provincial Court
Legislative Assembly (Members of the)
Legislative Counsel and Law Clerk
Legislative Librarian
Ombudsman
Provincial Auditor
Rentalsman
Supervising justice of the peace, appointed Under section 3 of *The Justices of the Peace Act, 1988*

Individuals receiving benefits under:

Judges of the Provincial Court Superannuation Plan

Individuals receiving an allowance pursuant to section 5 of *The Members of the Legislative Assembly Benefits Act*

Members of the Public Service of Saskatchewan as defined by *The Public Service Act, 1998*

Administration

The Public Employees Group Life Insurance Plan is underwritten on a cost-plus basis and is managed by the Public Employees Benefits Agency, Saskatchewan Finance.

The Co-operators Life Insurance Company under Group Policy G.1100 (Life) provides claims adjudication and benefit payment services to the Plan.

Investment Management Services

The Minister of Finance is authorized to invest money of the Group Life Insurance Fund in any securities authorized for investment under the "Investment Policy Guidelines".

Co-operators Investment Counselling Limited invests the monies of the Fund under a contract to provide services. The Fund pays management fees to Co-operators Investment Counselling Limited.

Funding

Funding for the Plan is comprised of employee and employer paid insurance premiums based on salary and the age, gender and smoker status of the employee.

Premiums/Claims Experience

	Dec. 31, 2003	Dec. 31, 2002
Premiums	$10,560,421	$10,053,669
Claims	$9,541,203	$9,345,842
# Claims		
- Employee	75	78
- Dependent	52	66

MANAGEMENT'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

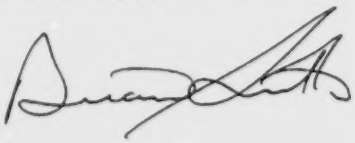
As members of management of the Public Employees Group Life Insurance Fund, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The significant accounting policies adopted in the preparation of the financial statements are fully and fairly disclosed in the financial statements.

The actuary has prepared a valuation report on the provision for life insurance benefits of the Fund, made in accordance with accepted actuarial practices and using assumptions adopted by management, has been used in the preparation of the financial statements.

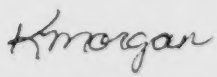
We believe the Public Employees Group Life Insurance Fund has a system of internal control adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with Canadian generally accepted accounting principles.

We enclose the financial statements of the Public Employees Group Life Insurance Fund for the year ended December 31, 2003 and the Provincial Auditor's report on these financial statements.



Brian Smith
Executive Director
Public Employees Benefits Agency

Perry Bahr
Director, Benefit Programs
Public Employees Benefits Agency



Kathy Morgan
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
March 1, 2004

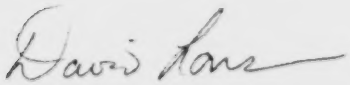
ACTUARIES' OPINION

With respect to the Public Employees Group Life Insurance Plan, we have prepared an actuarial valuation as at December 31, 2003 for the purpose of determining the necessary actuarial information for financial statement reporting. In my opinion, for the purpose of this actuarial valuation:

- the data on which this valuation is based are sufficient and reliable;
- where applicable, the assumptions have been adopted as management's best estimates for accounting purposes and consequently I have not rendered an opinion on them; however, in my opinion, the assumptions are, in aggregate not unreasonable, when considering the circumstances of the plan and the purpose of the valuation; and
- the actuarial cost methods employed are appropriate.

Nonetheless, emerging experience differing from the assumptions will result in gains or losses which will be revealed in subsequent valuations.

This report has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice.



David R. Larsen, FSA, FCIA
Aon Consulting Inc.

March 1, 2004

PUBLIC EMPLOYEES GROUP LIFE INSURANCE FUND

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Public Employees Group Life Insurance Fund as at December 31, 2003 and the statements of operations and net assets, and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
March 1, 2004

Fred Wendel, CMA, CA
Provincial Auditor

PUBLIC EMPLOYEES GROUP LIFE INSURANCE FUND
STATEMENT OF FINANCIAL POSITION

STATEMENT 1

AS AT DECEMBER 31

	2003	2002
ASSETS		
Current Assets:		
Cash	$ 104,784	$ 112,515
Accounts receivable (Note 9)	420,514	461,405
Receivable from Co-operators Life Insurance Company (Note 3 and 9)	433,532	192,506
	958,830	766,426
Due from Co-operators Life Insurance Company (Note 2b)	52,778,291	47,347,354
Total assets	$53,737,121	$48,113,780
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable (Note 9)	$ 302,216	$ 317,841
Claims payable (Note 9)	956,413	428,776
	1,258,629	746,617
Payable to SaskPower (Note 5)	346,453	334,402
Provision for life insurance benefits (Note 4)	21,340,200	29,114,300
Total Liabilities	22,945,282	30,195,319
NET ASSETS (Statement 2)	30,791,839	17,918,461
TOTAL LIABILITIES AND NET ASSETS	$53,737,121	$48,113,780

(See accompanying notes to the financial statements)

PUBLIC EMPLOYEES GROUP LIFE INSURANCE FUND
STATEMENT OF OPERATIONS AND NET ASSETS

STATEMENT 2

YEAR ENDED DECEMBER 31

	2003		2002
	Budget (Note 10)	Actual	Actual
REVENUE			
Premiums	$10,456,000	$10,560,421	$10,053,669
Investment income	500,000	4,926,232	236,412
Change in provision for life insurance benefits	-	7,774,100	-
	10,956,000	23,260,753	10,290,081
EXPENSE			
Claims	10,190,000	9,541,203	9,345,842
Change in provision for life insurance benefits	-	-	2,892,000
Administration (Note 6)	216,492	165,209	176,537
Premium taxes	313,000	293,476	289,487
Adjudication fees	260,000	256,296	215,121
Management fees (Note 7)	130,000	131,191	124,594
	11,109,492	10,387,375	13,043,581
Surplus (deficit) for the year	(153,492)	12,873,378	(2,753,500)
NET ASSETS, BEGINNING OF YEAR	17,918,461	17,918,461	20,671,961
NET ASSETS, END OF YEAR - Statement 1	$17,764,969	$30,791,839	$17,918,461

(See accompanying notes to the financial statements)

PUBLIC EMPLOYEES GROUP LIFE INSURANCE FUND
STATEMENT OF CASH FLOWS

STATEMENT 3

YEAR ENDED DECEMBER 31

	2003	2002
Cash flows from operating activities:		
Premiums received	$ 10,393,719	$ 11,093,301
Claims paid	(9,013,566)	(10,577,382)
Administration expenses paid	(207,125)	(147,966)
Premium taxes paid	(290,645)	(297,506)
Adjudication fees paid	(254,219)	(216,922)
Management fees paid	(131,190)	(124,594)
	496,974	(271,069)
Cash flows from investing activities:		
Proceeds from sale of investments	4,926,232	236,412
Purchase of investments	(5,430,937)	54,336
	(504,705)	290,748
Net (decrease) increase in cash	(7,731)	19,679
CASH, BEGINNING OF YEAR	112,515	92,836
CASH, END OF YEAR	$ 104,784	$ 112,515

(See accompanying notes to the financial statements)

PUBLIC EMPLOYEES GROUP LIFE INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. Description of Fund

The Public Employees Group Life Insurance Fund (PEGIF) is a special purpose fund used to account for the premiums, claims, investment and administrative transactions of the Group Life Insurance Plan (Plan). The Plan continues under subsection 64(2) of *The Financial Administration Act, 1993*.

This Plan is managed by the Public Employees Benefits Agency (PEBA) and provides comprehensive life insurance coverage to certain members of the public service of the Province of Saskatchewan and other Saskatchewan Crown agencies, whose participation in the Plan has been approved by the Lieutenant Governor in Council. The plan provides life insurance coverage for a specific period without a medical examination. The coverage is renewed automatically every year to a maximum age of sixty-five. At retirement, retirement death benefit certificates having values up to $10,000 are given to employees. The cost of providing these certificates to retiring employees is included in the provision for life insurance benefits. Members can elect to continue insurance coverage from sixty-five to seventy-five years old at a higher premium rate. The Plan insurance coverage does not include accumulation of cash values. The Plan is administered under the terms of an agreement with the Co-operators Life Insurance Company.

Claims are adjudicated and processed for payment by the Co-operators Life Insurance Company.

Employees and employers pay premiums monthly. Premiums are paid by the employers on the first $20,000 to $25,000 of coverage. Employees pay for the remainder of their coverage at a rate of $0.25 to $0.28 per month per $1,000 coverage.

Premiums for life insurance are waived for employees who become disabled. The cost of providing life insurance coverage (benefit) due to waiver of premiums is included in the provision for life insurance benefits.

2. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered significant.

a) Premium revenue

Premiums are recognized when due.

b) Due from Co-operators Life Insurance Company (Co-operators)

According to the agreement between PEBA and Co-operators, Co-operators has established a segregated fund for the investment of PEGIF's monies. The PEGIF's units in the fund represents a debt due by Co-operators. This debt is represented by the investments of the segregated fund.

The segregated fund is valued at market and any increase/decrease in the value of the segregated fund is accounted for in the statement of operations and net assets as investment income.

Fair value of the segregated fund approximates its market value.

c) Provision for life insurance benefits

Group Life policies are considered yearly termed life policies that are automatically renewed every year. Under such life policies, claims are recorded in the year of the claim. The provision for life insurance benefits represents the present value of future payments arising from benefits for disabled employees whose premiums have been waived and includes an estimated amount for claims incurred but not yet reported. The provision also includes the present value of the retirement death benefit certificates for those employees who retired prior to year end. The provision for life insurance benefits is determined pursuant to an actuarial valuation. Any resulting change in the liability pursuant to the valuation is recognized as a revenue or expense item in the statement of operations and net assets.

d) Claims expense

Claims are recognized in the year they are incurred. Claims expense includes future payments arising from life claims received during the year and life claims received after the year end for fatalities that occurred during the year.

e) Cash

Cash consists of balances with the bank.

3. Receivable from Co-operators Life Insurance Company

According to the agreement between PEBA and Co-operators, Co-operators has established a current fund for PEGIF's receipt of premiums and payment of claims and administration expenses. The balance in this fund represents a debt due by Co-operators to PEGIF.

4. Provision for Life Insurance Benefits

An actuarial valuation was performed by Aon Consulting Inc. as at December 31, 2003 and as at December 31, 2002 to determine the liability for future costs of providing life coverage to existing disabled employees whose premiums have been waived (waived premiums) prior to year end and the retirement death benefit certificates (retirement certificates) for those employees who retired prior to year end.

The actuarial valuation of future benefits as at December 31 and the principal components of the change in actuarial valuation during the year, were as follows:

	2003		2002	
	Waived Premiums	Retirement Certificates	Waived Premiums	Retirement Certificates
Actuarial valuation, beginning of year	$20,434,400	$8,679,900	$18,209,400	$8,012,900
Interest accrued on benefits	1,328,200	533,200	1,138,100	474,200
Experience (gain) loss	(5,657,400)	56,200	(3,405,600)	48,900
New claims	5,712,700	657,800	7,348,000	741,500
Expected benefit payments	(2,940,100)	(388,100)	(2,580,800)	(337,600)
Change in assumptions	(7,355,200)	278,600	(274,700)	(260,000)
Actuarial valuation, end of year	$11,522,600	$9,817,600	$20,434,400	$8,679,900

The liability as at December 31, 2003 is $21,340,200 (2002 - $29,114,300). The liability includes $9,817,600 (2002 - $8,679,900) for retirement death benefit certificates and remainder $11,522,600 (2002 - $20,434,000) for life coverage for those disabled employees whose premiums have been waived.

The valuation is based on the following assumptions: 1) the life waiver valuation uses a table derived from the *Group Life Waiver Study Based on 1988-1994 Canadian Group LTD Termination Experience*, published November 2001, with mortality rates adjusted to 200% (2002 - 1970 Group Life Premiums Waiver Valuation Table for recovery and 150% of the 1993 Canada Pension Disabled Life Mortality Experience Table for death rates); 2) the interest rate assumed is 6.25% (2002-6.5%); 3) the mortality rates of existing retirees are based on the Canadian Life 1990-92 tables; 4) a maximum 3% consumer price indexing of future benefit payments to disabled members whose life insurance premiums have been waived; 5) the inflation rate assumed is 3% for all future years.

If the valuation assumed no indexing of the level of insurance for those disabled employees, the liability at December 31, 2003 would be $19,816,900 (2002 - $25,886,000).

The liability for the cost of providing life insurance coverage to disabled employees whose premiums have been waived prior to year end and the retirement death benefit certificates for those employees who retired prior to year end are based on a number of assumptions about future events including: recovery and mortality rates and interest rates. The actual experience may vary significantly from the assumptions used.

The following illustrates the effect of changes in the interest rate and mortality on the retirement death benefit certificate liability:

- a 1% change in the interest rate equals a 13.6% change in the liability including the cost of living adjustment
- a 10% change of the Group Life Insurance mortality equals a 3.8% change in the liability

The following illustrates the effect of changes in the interest rate, cost of living adjustment and mortality on group life waivers:

- a 1% change in the interest rate equals a 5.1% change in the liability including the cost of living adjustment
- a change in the cost of living adjustment of 1% equals a 4.8% change in the liability
- a change of waiver mortality by 10% equals a 5.2% change in the liability

The $7,355,200 decrease in liability due to change in assumptions is substantially caused by changing the table.

The provision for life insurance benefits is long term in nature and there is no market for settling these obligations. Therefore it is not practical to determine the fair value of the provision for life insurance benefits.

5. Payable to SaskPower

Effective January 1, 1991, PEGIF began issuing a $3,000 paid up life insurance policy (Retirement Death Benefit Certificate) to retired employees of this plan. The value was increased to $5,000 effective April 1, 1993 for those individuals retiring on or after this date.

SaskPower, SaskEnergy, SGI, Sask Property Management Corp. and the public service in conjunction with CUPE 600 provide a $10,000 paid up life insurance policy to their employees upon retirement.

Additional premiums are submitted for this enhanced benefit.

The paid up certificate remains in force and has no cash value until the employee's death, at which time the face value is payable to the designated beneficiary.

The liability for the paid up policies is included in the provision for life insurance benefits liability shown in the statement of financial position, with the exception of the enhanced portion of the paid up policy of SaskPower. PEGIF has an agreement with SaskPower transferring the liability to the corporation effective 1998. PEGIF continues to collect premiums and pay claims on the corporation's behalf. Accordingly, a payable to SaskPower exists as the current activity to date has premiums exceeding claims.

6. Administration Expenses

The Public Employees Benefits Agency Revolving Fund administers the Public Employees Group Life Insurance Fund for a mutually agreed upon fee. Public Employees Group Life Insurance Fund pays the annual administration fee to the Public Employees Benefits Agency Revolving Fund on agreed upon dates.

7. Management Fees

The Public Employees Benefits Agency invests money of the Public Employees Group Life Insurance Fund in any securities authorized for investment under the Fund's Statement of Investment Policies and Objectives.

Co-operators Life Insurance Company invests the monies of the Fund under a contract to provide services. The Fund pays management fees to the Co-operators Life Insurance Company.

8. Investment Performance

The Fund's investments are represented by the amounts due from Co-operators Life Insurance Company (see note 2).

The following is a summary of the Fund's investment performance:

	2003	Four year annualized return
Fund (a)	10.3%	6.9%
Benchmark (b)	9.6%	3.6%

(a) The annual returns are before deducting investment expenses.

(b) The benchmark return is the Fund's target rate of return for its segregated fund. The benchmark return is calculated using actual returns and the Fund's planned investment portfolio for its segregated fund.

9. Fair Value of Financial Instruments

For the following financial instruments the fair value approximates their carrying value due to the immediate or short term nature of these instruments.

(a) accounts receivable
(b) receivable from Co-operators Life Insurance Company
(c) accounts payable, and
(d) claims payable.

The Fund is exposed to minimal credit risk from the potential non-payment of accounts receivable as these receivables are from government agencies and were collected shortly after year end.

10. Budget

PEBA approves the Public Employees Group Life Insurance Fund's budget.

11. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan collectively referred to as "related parties". These transactions are recorded at agreed upon exchange amounts.

Due to the nature of the Fund, all premiums received are from related parties.

At year end, all of the accounts receivable and accounts payable are due to/from related parties.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.

12. Legal

The Fund is a party to a lawsuit initiated by a claimant relating to certain benefits. The ultimate outcome of this lawsuit is not yet determinable. Accordingly, no liability has been recorded in these financial statements. Any liability arising from the resolution of this lawsuit will be accounted for in the year the lawsuit is settled.